



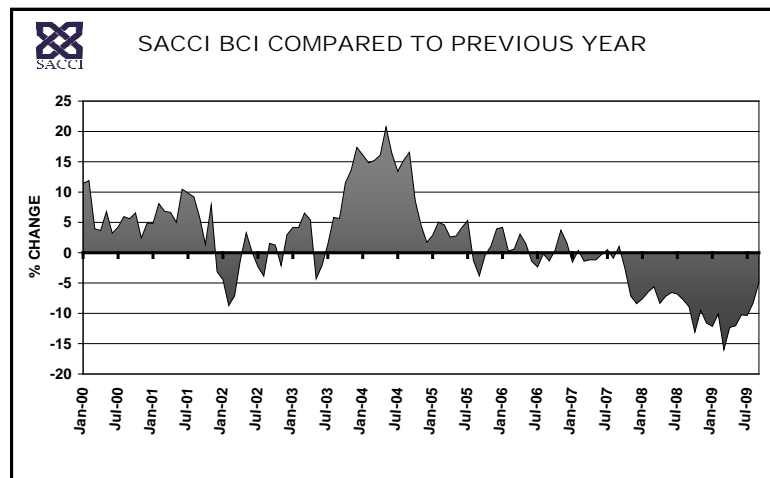
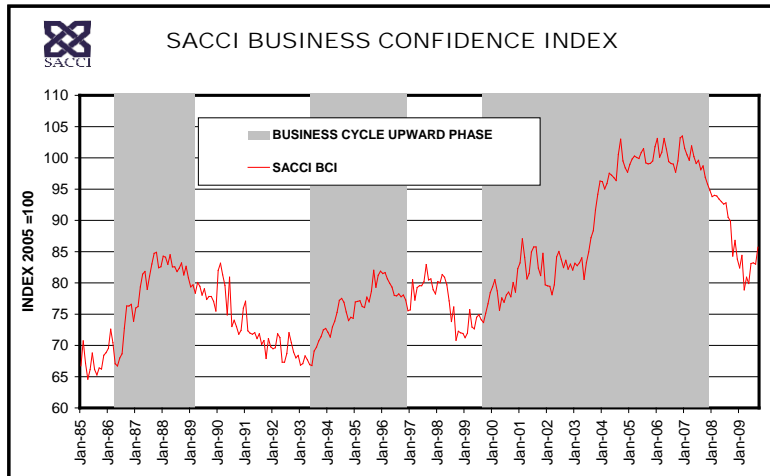
South African Chamber of Commerce and Industry
Business Confidence Index
September 2009

- **THE SACCI BUSINESS CONFIDENCE INDEX (BCI)**
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Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, the BCI should always be read with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za

THE SACCI BUSINESS CONFIDENCE INDEX 2005=100

Month	2003	2004	2005	2006	2007	2008	2009
January	83.1	96.2	99.0	103.1	101.5	93.8	82.4
February	82.8	95.0	99.8	100.1	100.5	94.0	84.5
March	83.2	95.9	100.3	100.9	99.5	93.9	78.9
April	84.0	97.5	100.1	103.1	101.9	93.4	81.9
May	80.6	97.2	99.9	101.4	100.2	93.0	81.8
June	83.2	96.8	100.8	99.4	99.1	92.6	83.1
July	85.0	96.4	101.5	99.1	99.6	92.8	83.2
August	87.2	100.5	99.2	99.0	98.1	90.5	83.0
September	88.3	103.0	99.0	97.7	98.7	89.9	85.5
October	91.6	99.5	99.1	99.5	96.9	84.2	
November	94.2	98.4	99.5	103.2	95.8	86.7	
December	96.3	97.7	101.8	103.5	94.8	83.8	
Average	86.6	97.8	100.0	100.8	98.9	90.7	



THIS MONTH'S BCI RESULTS

The **SACCI** Business Confidence Index (BCI) improved to 85.5 in September 2009 from 83 in August 2009 and the BCI is 6.6 index points higher than the depressed level of 78.9 measured in March 2009. The September 2009 BCI reading is still 4.4 index points below last September's level of 89.9; it is currently at confidence levels last recorded towards the middle of 2003.

The recovery spike of 2.5 index points in the BCI is comparable to the 3 index points recovery in April 2009 following on the BCI's recent low of 78.9 in March 2009. The September 2009 level is the best level recorded since November 2008 when the index stood at 86.7. Notwithstanding, to fully comprehend the substance of the improved BCI, the latest level of the BCI must be viewed against the economic circumstances as set out in the Economic Commentary in the next section.

The majority of the BCI sub-indices had a positive impact on the BCI in September 2009 on a month-to-month basis suggesting that business confidence may continue improving over the medium term. However, the majority of the BCI sub-indices had a negative impact on the index on a year-on-year (y/y) basis. The majority of the y/y changes in the sub-indices are negative except inflation, the weighted rand exchange rate, precious metal prices and liquidations. The improvement in business confidence may therefore be a slow process depending largely on healthier real global economic conditions.

From August 2009 to September 2009, only four sub-indices impacted negatively on the **SACCI** BCI. This downward pressure came from import and export volumes of merchandise, building construction and real private sector borrowing. Eight sub-indices made a positive impact (see box below), while only core inflation remained virtually unchanged.

BUSINESS CLIMATE INDICATORS *	Impact since previous month	Impact since previous year
Liquidations	+	+
Manufacturing	+	-
Exports	-	-
Imports	-	-
Vehicle sales	+	-
Retail sales	+	-
Construction - buildings	-	-
Inflation	o	+
Share prices	+	-
Private sector borrowing	-	-
Real financing cost	+	-
Precious metal prices	+	+
Rand exchange rate	+	+

* See notes on BCI on www.sacsi.org.za

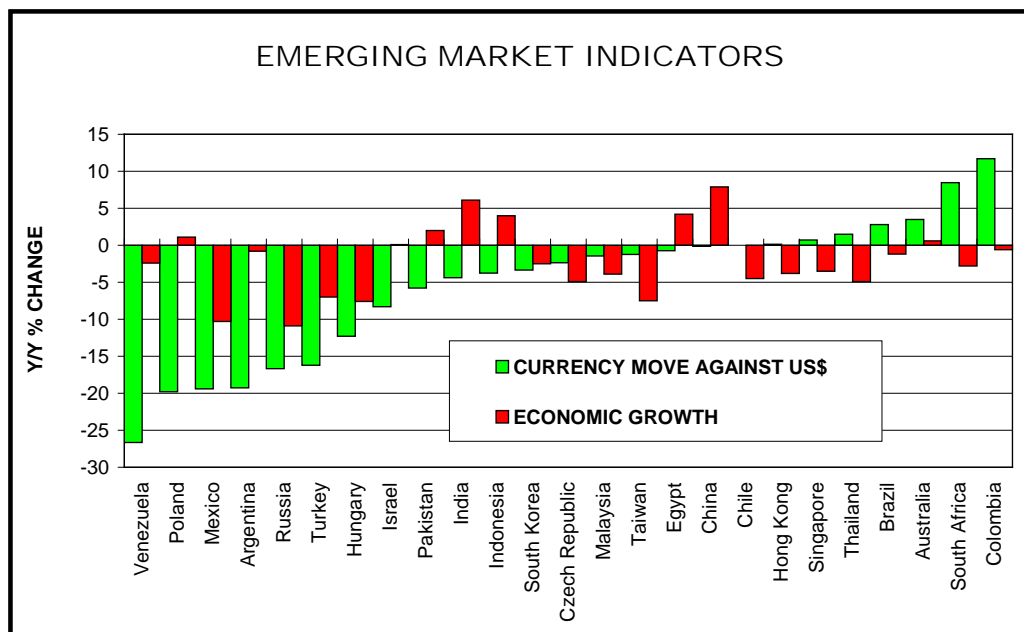
ECONOMIC COMMENTARY

Recovery Underway

There has been a gradual trend toward improvement in the **SACCI** BCI since it bottomed out in March 2009. Business confidence has been on a downward trend since January 2007 when the BCI started declining. In October 2008, the BCI went into freefall as the global recession affected business confidence and financial markets on a wide front. After a gradual recovery since then, the spike in the BCI in September 2009 should be viewed with circumspection:

Recent significant economic events to place the BCI's performance in context include:

- The rand performed well in September 2009 and improved by 5.2% on August 2009 against a weighted US dollar, British pound and euro. A possible financial/merger deal between a South African and Indian business concern carried the strength in the rand.
- The US dollar weakened notably in September 2009 and was trading at more than US dollar 1.5 to the euro at a certain stage during September.
- Liquidations were nearly 40% down between July and August 2009 without any rational economic reason.
- Share prices on the JSE recorded new record levels for this year in September 2009 and were 46% higher than at the end of 2008 in US dollar terms. This was in line with international stock markets that pre-empt a strong economic recovery in the months to come. On average the emerging market share prices in US dollar terms were 62% higher than at the end of 2008.



These extraordinary circumstances had a marked effect on the September 2009 BCI level. This set of events is unlikely to be repeated in the months ahead. Therefore the BCI will most probably follow a moderate recovery in accordance with real economic developments.

Given the slow economic global recovery and low inflation and even deflation in

the US, Japan, China and a number of other economies, it is apparent that markets are too optimistic about the strength of the recovery of the global economy. In its October 2009 World Economic Outlook the IMF indicated that.....*"The global economy appears to be expanding again, pulled up by the strong performance of Asian economies and stabilization or modest recovery elsewhere..... The pace of recovery is slow, and activity remains far below pre-crisis levels. The pickup is being led by a rebound in manufacturing and a turn in the inventory cycle....."*

A slow recovery in business confidence will therefore remain a feature of at least the medium term.

The South African Economic Recovery

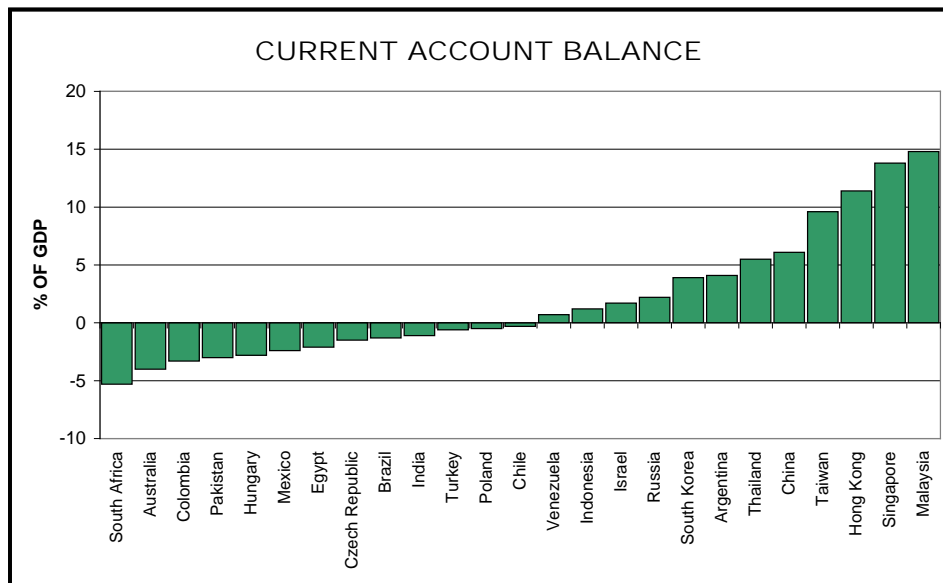
Most of the sub-indices of the BCI are still well below the levels of a year ago. Although the deterioration in activity has receded, real economic activity still has to catch up with previous high levels before sustainable growth could set in. A major part of economic activity at the height of the upward phase of the business cycle were a result of unsustainable financing practices, low debt levels, low interest rates, low debt levels, low inflation and a strong rand. Criteria for providing credit also became stricter and based on debt servicing ability. Therefore, those pre- 2007 high levels of activity could only be achieved by an improvement in real economic activity based on sound financial fundamentals.

Public sector borrowing and central bank assistance to the economy have placed an additional burden on future growth. These interventions will nevertheless have to be phased out gradually and with caution. The public sector borrowing requirement in South Africa has increased from 5.7% of GDP in the 1st quarter 2009 to 14.4% in the 2nd quarter 2009. With a dire need for capital by public sector institutions like Eskom and other public sector utility enterprises, the public sector borrowing requirements is likely to increase further. This could crowd out private sector borrowing if the small domestic pool of savings is targeted and leave government with stark and unpopular choices.

International long-term financing at generous lending terms has become an imperative for the RSA. It is therefore of the utmost importance that a stable socio-political environment amongst other economic and financial conditions should prevail in order to obtain and negotiate the most favourable terms.

Complicated Global Trade Environment

The cumulative trade deficit of South Africa for January to August 2009 has improved to R20.5 billion from R49.3 billion for the same period in 2008. This improvement came about as both exports (-21.3%) and imports (-25.1%) declined y/y for the first eight months. As imports slowed by more than exports, the current account deficit as percentage of GDP decreased from 7.1% in the second quarter of 2008 to 3.4% in the second quarter 2009. A too strong rand poses a real threat to the RSA's international trade performance and the Balance of Payments (BoP).



A comparison with other emerging markets reveals that, despite the improvement in the RSA's current account deficit, the RSA deficit may remain the largest in 2009. It is, however, the twin deficit risks (public sector borrowing requirement and current account deficit of the BOP) that could retard South Africa's growth ability and recovery from the present economic situation. Crowding out the private sector from the capital markets in a low savings economy, remain a risk for the RSA's economic prospects.

Conclusion

Business confidence will most probably follow a moderate but cautious path to recovery. Households are still bearing the brunt of excesses of the previous upward cycle. The present investment cycle may be difficult to sustain in the longer-term. Much will thus depend on the global economic recovery and the ability of South Africans to seize emerging opportunities.

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GENERAL ECONOMIC INDICATORS

Indicator	Period	Direction	Latest	Previous	2008	2003
Consumer inflation headline urban (%)	Aug-09	▼	6.4	6.7	11.5	6.3
Consumer inflation urban - excl. food, bev. & fuel (%)	Aug-09	▶	8.2	8.2	11.5	6.7
Money supply (% Δ Y-o-Y)	Aug-09	▼	5.5	5.8	14.5	12.9
Private sector credit (% Δ Y-o-Y)	Aug-09	▼	2.3	3.4	14.0	19.2
Prime overdraft rate eop (%)	Sep-09	▼	10.5	10.5	15.0	11.5
Real prime overdraft rate eop (%)	Sep-09	▼	2.1	2.1	3.1	4.5
Bond yield 5-10y govt eop (%)	Sep-09	▼	8.22	8.13	7.4	8.9
R / US\$ average	Sep-09	▼	7.52	7.94	8.38	7.56
R / Euro average	Sep-09	▼	10.94	11.33	12.12	8.53
Indicator	Date		Latest	Previous	2008	2003
Income & wealth tax / GDP (%) saar	q2-09	▲	16.3	15.9	16.5	13.4
Total tax / GDP (%) saar	q2-09	▼	27.5	28.7	28.5	25.2
Public sector borrowing requirement / GDP (%)	q2-09	▲	14.4	5.7	2.2	1.8
Public sector expenditure / GDP (%)	q2-09	▲	29.5	28.8	26.3	23.5
National government debt / GDP (%)	q2-09	▲	24.1	22.4	23.8	39.2
Imports / GDE (%)	q2-09	▼	27.0	31.9	37.3	26.4
Exports / GDP (%)	q2-09	▼	27.3	29.5	35.3	28.1
Net foreign financial flows / GDP (%)	q2-09	▼	4.6	6.1	6.9	0.7
Current account balance / GDP (%)	q2-09	▼	-3.4	-5.8	-6.0	-1.1
Gross domestic saving / GDP (%) saar	q2-09	▼	16.5	16.9	15.4	15.8
Gross capital formation / GDP (%) saar	q2-09	▼	19.6	23.9	22.8	16.9
Net fixed capital formation / GDP (%)	q2-09	▲	-	-	9.8	3.1
GDP growth (% Δ Y-o-Y)	q2-09	▼	-2.8	-2.8	3.1	3.1

Notes: Δ=change; eop=end of period; Y-o-Y=year-on-year; q=quarter; saar=seasonal adjusted annual rate; GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure.

*Series discontinued.